

# USAID

## OFFICE OF INSPECTOR GENERAL

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### **Audit of USAID's Governmentwide Commercial Purchase Card Program**

**Audit Report Number 9-000-02-004-P**

**March 19, 2002**



**U.S. Agency for International Development  
Washington, D.C.**

**USAID**



U. S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

*Office of Inspector General*

March 19, 2002

## **MEMORANDUM**

**FOR:** Office of Procurement Director, Mark S. Ward  
Acting Chief Financial Officer, Elmer S. Owens

**FROM:** IG/A/PA Director, Dianne L. Rawl /s/

**SUBJECT:** Audit of USAID's Governmentwide Commercial Purchase  
Card Program (Report No. 9-000-02-004-P)

This is our final report on the subject audit. In finalizing the report, we considered your formal response to the draft report, as well as two subsequent emails, all of which are included in Appendix II.

This report contains ten recommendations. Recommendation Nos. 1 through 3 are to take actions that could result in annual management efficiencies estimated at approximately \$1.3 million by expanding the use of purchase cards and increasing the amount of purchase card rebates. In your comments, you agreed to implement most of those actions, but did not concur with our estimated savings amounts. For recommendations dealing with efficiencies, a management decision cannot be reached until management and the OIG agree on the amount of estimated savings. Consequently, we do not consider a management decision to have been reached for any of the three recommendations. Please provide within 30 days any additional information related to actions planned or taken to implement these recommendations, as well as your proposed estimated savings amounts.

Recommendation Nos. 4 through 10 address strengthening various internal controls relating to the purchase card program and are procedural in nature. Based on your comments, we consider all seven to have received a management decision. Please coordinate any final actions with M/MPI.

I appreciate the cooperation and courtesy extended to my staff during the audit.

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## Summary of Results



During the 1990s, Congress enacted legislation to allow federal agencies to simplify procedures for small purchases in order to promote efficiency and economy in contracting. The Governmentwide Commercial Purchase Card (purchase card) Program was established to enable federal agencies to further streamline the acquisition process. A goal established for civilian agencies was to place 80 percent of micropurchases, or 75 percent of purchases under \$25,000, on purchase cards during fiscal year 2001. (See page 4.)

This audit was designed to determine whether USAID had (1) used purchase cards to the extent required by federal laws and regulations, as well as USAID policies, and (2) designed and implemented effective controls over its purchase card program. (See page 5.)

The principal findings in this audit included:

- USAID did not use purchase cards to the extent required by federal laws and regulations, or USAID policies, resulting in additional transaction costs and reduced rebates. (See pages 5 through 12.)
- USAID did not maximize the amount of possible rebates from the purchase card provider because it had not increased the number of purchase card transactions, expanded the purchase card program to include higher-value purchases, paid invoices promptly, or implemented certain electronic commerce policies. (See pages 12 through 16.)
- USAID did not design and implement effective controls over its purchase card program to minimize the risk of inappropriate use of purchase cards. (See pages 16 through 23.)

This report includes three recommendations to achieve potential management efficiencies and seven recommendations to strengthen various internal controls. The efficiency recommendations, if acted upon, should help USAID reduce future transaction costs by an estimated \$715,000 annually and increase monetary rebates earned by an estimated \$576,000 annually. (See pages 5 through 23.)

In comments to the draft audit report (included in Appendix II), USAID management indicated that it generally concurred with our recommendations. However, for Recommendation Nos. 1 through 3, management expressed concern in achieving the estimated savings and identified a system change which it deemed would be necessary prior to expanding the purchase card

program. Although, management agreed that, with the expansion of the purchase card program, efficiencies will occur, rebates will increase, and the acquisition process will be streamlined, management disagreed with our estimated savings amounts. Consequently, we do not consider any of the three recommendations with stated efficiencies to have received a management decision. In its comments, USAID management concurred with Recommendation Nos. 4 through 10 and indicated a final action date of March 10, 2003 for each. Consequently, we consider all seven of these recommendations to have received a management decision. (See pages 23 through 25.)

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## Background



In recent years Congress has enacted legislation designed to simplify and streamline the acquisition of goods and services by federal agencies.<sup>1</sup> The Governmentwide Commercial Purchase Card (purchase card) was established as a purchase and payment tool to enable federal agencies to implement simplified procedures and streamline the acquisition process by quickly ordering and paying for procurements. The purchase card program includes purchases and payments of goods and services both at the micropurchase level (below \$2,500) and up to the Simplified Acquisition Threshold of \$100,000. The legislation also allowed agencies to purchase commercially available goods and services and provided for the increased use of electronic commerce to order, receive, and pay for those goods and services, resulting in further streamlining of the acquisition process.

A key feature of the purchase card program is the opportunity for agencies to earn rebates. Rebates are based on the agencies' sales volume, payment performance, and use of electronic processes for submitting and receiving purchase card statements and reports. Rebates may be used to cover general operating expenses of participating agencies.

The General Service Administration (GSA) negotiated new purchase card contracts with federal agencies, effective November 30, 1998 through November 29, 2003. According to GSA, agencies could save more than \$53 per transaction<sup>2</sup> in administrative costs each time they use a purchase card instead of a purchase order. The Procurement Executives Council's Governmentwide Acquisition Performance Measurement Program established the goal for civilian agencies to place 80 percent of their micropurchases or 75 percent of transactions below \$25,000 on purchase cards during fiscal year 2001.

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<sup>1</sup>The Federal Acquisition Streamlining Act (FASA) of 1994 (PL 103-355) and the Federal Acquisition Reform Act of 1996 (PL 104-106).

<sup>2</sup> See GSA's Federal Supply Service: GSA Smart Pay Executive Summary (1999).

USAID, through its purchase card provider Citibank, placed a total of 725 micropurchase transactions, valued at \$741,164, on purchase cards from December 1998, through December 2000. USAID received purchase card rebates of \$4,464 from Citibank during the same period.

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## Audit Objectives



As part of its fiscal year 2001 audit plan, the Office of Inspector General's Performance Audits Division conducted this audit to answer the following questions:

- Has USAID used purchase cards to the extent required by applicable laws, regulations, and policies?
- Has USAID designed and implemented effective controls over its purchase card program?

This audit focused primarily on the use and control of purchase cards at USAID headquarters in Washington, D.C. (USAID/W) and did not review the use of purchase cards by USAID's overseas missions. Therefore, references to USAID's purchase card program policies and procedures and tests of transactions and interviews with agency personnel refer to USAID/W only. However, implementation of the recommendations in this report should benefit USAID's purchase card program on a worldwide basis.

Appendix I contains a discussion of the scope and methodology for this audit.

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## Audit Findings



### **Has USAID used purchase cards to the extent required by applicable laws, regulations, and policies?**

USAID has not used purchase cards to the extent required by federal laws and regulations or its own internal policies because it has not used purchase cards for all eligible<sup>3</sup> micropurchase transactions. Further, USAID has not designed its purchase card program to routinely include purchases above the micropurchase level. As a result, USAID incurred nearly \$1.2 million in additional transaction costs during 1999 and 2000, and failed to earn about \$1.2 million in potential monetary rebates during the same period. USAID could save an estimated \$715,000 in transaction costs annually and earn an estimated \$576,000 annually in monetary rebates by:

- enforcing its policy of using purchase cards for all eligible micropurchases;

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<sup>3</sup> According to FAR-13.3, purchase cards may be used only for purchases that are otherwise authorized by law or regulations.

- expanding the use of purchase cards above the micropurchase level; and
- taking additional steps to maximize purchase card rebates.

### **USAID Needs to Enforce Its Policy of Using Purchase Cards for All Eligible Micropurchases**

Federal regulations require that agencies use purchase cards as the preferred method of purchasing and paying for micropurchases—defined as purchases not exceeding \$2,500. USAID policy requires that all eligible micropurchases be made on purchase cards. During 1999 and 2000, USAID reported making micropurchases totaling \$15 million, of which only \$741,163, or 5 percent, were made by purchase card. A governmentwide goal for civilian agencies is to place 80 percent of micropurchases on purchase cards. USAID did not use purchase cards for the majority of its micropurchases because USAID management did not encourage, monitor, or enforce the use of purchase cards for all eligible micropurchases. In particular, USAID’s Office of Procurement did not provide adequate training or guidance to employees regarding the use of purchase cards. As a result, during 1999 and 2000, USAID incurred an estimated \$736,000 in avoidable transaction costs. In addition, USAID also experienced unnecessary delays in processing micropurchase procurement actions and did not receive the benefit of substantial monetary rebates tied to purchase card use. By ensuring that at least 80 percent of future micropurchases are made with purchase cards, USAID could avoid \$452,000 in annual transaction costs, shorten procurement processing time, and earn an estimated \$8,000 per year in additional rebates.

The Federal Acquisition Regulation (FAR)<sup>4</sup> encourages agency heads to delegate micropurchase authority and indicates that purchase cards are the preferred method for purchasing and paying for micropurchases. To streamline administrative costs associated with micropurchases, the FAR allows agencies to make micropurchases without soliciting competitive quotations if the individual making the purchase considers the price to be reasonable.

USAID’s internal policy allows certain employees to receive and use purchase cards for transactions within the micropurchase limit of \$2,500. Chapter 331 of USAID’s Automated Directives System (ADS) states that appointed non-procurement personnel may be issued a purchase card and given authority to procure goods and services within the constraints of their individual office

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<sup>4</sup> FAR 13.201.

budgets and at predetermined credit limits not to exceed \$2,500 per transaction.

The ADS goes on to say:

All operating expense funded procurements for commodities and services eligible for purchase on the card below \$2,500 in value must be processed on those cards issued to cardholders within the respective offices and Bureaus and are not to be forwarded to M/OP for processing.<sup>5</sup>

In addition, the Procurement Executives Council's Governmentwide Acquisition Performance Measurement Program set a governmentwide goal for civilian agencies to place 80 percent of their micropurchases on purchase cards in fiscal year 2001.

Despite federal guidance and internal policies that encourage the use of purchase cards, USAID did not use purchase cards for the majority of its micropurchases. According to its accounting records,<sup>6</sup> USAID completed 18,021 micropurchase transactions, totaling \$15,081,236, during 1999 and 2000. Of those micropurchase transactions, only 725 (4 percent of transactions), totaling \$741,163 (5 percent of dollar value), were made using purchase cards.

Many of USAID's micropurchases could have been made using purchase cards, but were procured through purchase orders instead. For example, USAID policy and Citibank literature state that training expenses are eligible for purchase card usage as long as the vendors accept credit card payments. We reviewed a random sample of 100 out of 1,008 purchase order transactions for training expenses under \$2,500 from USAID's accounting records for the period of December 1998 through December 2000. For each of the sampled transactions, we reviewed related accounts payable vouchers, interviewed individual cardholders and approving officials, and conducted telephone interviews with vendors. Through these reviews, we determined that 91 percent of the training transactions were eligible for, and should have been charged to purchase cards.

Cardholders and approving officials interviewed were unaware of the federal and USAID requirements to use purchase cards for all eligible micropurchases. They attributed this lack of knowledge to training that was not sufficient to ensure a good working knowledge of the purchase card program. For example, prior to being issued a purchase card, cardholders and

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<sup>5</sup> ADS 331.5.3.

<sup>6</sup> Source: AID Worldwide Accounting and Control System. We did not validate the accuracy or reliability of this financial data.

approving officials received only a one-time, three-hour course and no further training was required to reinforce or update the information provided in the original training course. (The lack of adequate training is discussed further as a control weakness in another section of this report—see page 21.)

Insufficient guidance may also have contributed to the low usage of purchase cards for micropurchases. For example, a May 1999 USAID/General Notice<sup>7</sup> appeared to limit the use of purchase cards to specific types of purchases, rather than encourage their use to all eligible micropurchases. The notice indicated that purchase cardholders were authorized to use their cards for:

- general office supplies and materials, including subscriptions;
- conference rooms and related expenses;
- training; and
- transcription services.

Cardholders said they believed this list was intended to be all-inclusive, rather than illustrative. While limited training and insufficient guidance may have contributed to the low usage of purchase cards for making micropurchases, the principal cause was that USAID managers responsible for overseeing the purchase card program did not have adequate procedures in place to regularly encourage, monitor, or enforce the use of purchase cards for all eligible micropurchases.

Because USAID did not use purchase cards for all eligible micropurchases, it has incurred substantial additional transaction costs. For example, GSA has estimated that agencies could save an average of \$53.77 per transaction each time a purchase card is used.<sup>8</sup> By applying GSA's figure to USAID's reported transactions valued below \$2,500 for the two-year period reviewed, we estimate that the USAID could have saved \$736,000 in transaction costs. By meeting the goal set for civilian agencies of using purchase cards for 80 percent of future micropurchases, USAID could save an estimated \$452,000 annually in transaction costs.

By using purchase cards, rather than more traditional procurement methods, USAID could also avoid unnecessary delays in processing micropurchases by streamlining the procurement process. For example, a recently issued USAID General Notice<sup>9</sup> indicated that managers should expect to wait approximately

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<sup>7</sup> USAID/General Notice issued May 13, 1999 by M/OP.

<sup>8</sup> GSA adjusted its estimate, for inflation, to \$66 of savings per transaction for purchase card transactions in fiscal year 2000.

<sup>9</sup> USAID/General Notice, issued April 13, 2001, by M/OP.

69 days for a purchase order to be processed. By comparison, purchase card transactions could be processed in a single day.

As a result of not using purchase cards for all eligible micropurchases, USAID has also missed an opportunity to earn an estimated \$8,000 per year in additional rebates offered by the purchase card provider. (Rebates are discussed more fully in a later section of this audit report—see page 12.)

In conclusion, we believe that USAID could substantially reduce transaction costs, streamline the procurement process, and benefit from additional rebates by establishing, documenting, and monitoring procedures to maximize use of purchase cards for all eligible micropurchases in accordance with federal guidance and USAID's own internal policy.

**Recommendation No. 1: We recommend that the Director of the Office of Procurement develop and document procedures to encourage, monitor, and enforce the use of purchase cards for all eligible micropurchases to save an estimated \$452,000 in transaction costs and earn \$8,000 in additional rebates during the succeeding 12-month period.**

### **USAID Should Expand the Use of Purchase Cards Above the Micropurchase Level**

Contrary to federal requirements, USAID policy limits the routine use of purchase cards to purchases at or below the micropurchase level. USAID officials did not revise internal policies to reflect changes in federal laws and regulations requiring expanded use of purchase cards above the micropurchase level because it was not a high management priority and because management was unfamiliar with the benefits of purchase card usage. As a result, during 1999 and 2000, USAID incurred an estimated \$428,600 in avoidable transaction costs for purchases above the micropurchase level, experienced unnecessary delays in processing procurement actions under the Simplified Acquisition Level, and did not benefit from an estimated \$143,000 per year in additional rebates associated with the increased volume of purchase card use.

The FAR requires agencies to use simplified acquisition procedures, such as use of purchase cards, to the maximum extent practical. Specifically, the FAR states that agency procedures should not limit the use of purchase cards to micropurchases.<sup>10</sup> Rather, the FAR indicates that agency procedures should encourage the use of purchase cards in greater dollar amounts—up to the

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<sup>10</sup> FAR 13.301.

Simplified Acquisition Threshold of \$100,000. The FAR<sup>11</sup> encourages agencies to be innovative in expanding the use of their purchase card programs for the following:

- micropurchases;
- task or delivery orders (if authorized in the basic contract, basic ordering agreement, or blanket purchase agreement); or
- payments to contractors, when the contractors agree to accept payment by credit card.

The Treasury Financial Manual (TFM) also requires that agencies not limit their use of purchase cards to micropurchases. The TFM indicates that purchases up to \$25,000 should be made with purchase cards.

Small purchases of up to \$25,000 should be made using the Government purchase card. Other small purchase methods... may only be used in lieu of the Government purchase card when it is more cost-effective, practicable, or required by existing statutes.<sup>12</sup>

To encourage agencies to expand their use of purchase cards, the Procurement Executives Council has established a governmentwide goal for civilian agencies to process at least 75 percent of their transactions below \$25,000 on purchase cards.

Despite guidance to maximize the use of purchase cards, USAID policy continued to restrict the routine use of purchase cards by non-procurement, administrative personnel to the micropurchase level. This resulted in a common misconception within USAID that purchase cards should only be used for micropurchases. USAID's Automated Directives System (ADS) 331.5.2 states:

Appointed non-procurement personnel may be issued a U.S. Government Credit Card and given authority to procure goods and services within the constraints of their individual office budgets and at predetermined credit limits *not to exceed \$2,500 per transaction*. [emphasis added]

USAID's policy to limit the use of purchase cards to micropurchases was also evidenced in a May 1999 General Notice that indicated that cardholders were only authorized to use their purchase cards for individual purchases not exceeding \$2,500. However, the notice also indicated that the Office of

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<sup>11</sup> FAR 13.003 and FAR 13.301.

<sup>12</sup> TFM 4-4500.

Procurement could increase an individual cardholder's \$2,500 limit, if done in writing.

Only individuals who have received the Citibank training and the NMS AWACS<sup>13</sup> orientation may be issued the purchase card. With the issuance of a purchase card to an individual, a delegation of authority will be issued to said individual for the micropurchase authority limit (not to exceed \$2,500), unless such limit is increased in writing by the Office of Procurement, Evaluation Division (M/OP/E).

According to the Office of Management and Budget, prior to increasing a purchase cardholder's per transaction limit above \$2,500, that individual is required to attend a one-week training course dealing with Simplified Acquisition Procedures. Upon completion of that course, the cardholder's delegation of authority may be increased beyond \$2,500, up to a maximum of \$100,000. However, only 5 of USAID's 107 cardholders had been given authority to exceed the \$2,500 limit.

Many of the cardholders interviewed indicated that their duties and responsibilities often required them to obtain goods or services valued in excess of \$2,500. However, because of the per transaction spending limit on their purchase cards, these cardholders would write purchase orders for these larger procurements, rather than use their purchase cards.

The majority of USAID's procurement officials with warrant authority above \$2,500 either had not been issued a purchase card or, if issued one, did not routinely use it for procuring goods and services above \$2,500. USAID's listing of warranted procurement personnel includes 56 Washington-based personnel. We found that only 3 of the 56 had been issued purchase cards.

USAID management has not encouraged the use of purchase cards above the micropurchase level because it has not been a high management priority. Also, management did not fully understand how the purchase card could streamline the procurement process and result in monetary rebates that could be used by USAID.

We estimate that USAID incurred \$428,600 in additional administrative costs during the period reviewed by applying GSA's estimate of \$53.77<sup>14</sup> in savings

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<sup>13</sup>New Management System's AID Worldwide Accounting and Control System.

<sup>14</sup> Calculation was based on assumption that USAID will meet the PEC's civilian agencies goal of placing 75 percent of purchases of \$25,000 or less on purchase cards each year and on GSA's estimate, adjusted for inflation, of \$66 for transactions made beginning fiscal year 2000.

per transaction to USAID's reported transactions valued between \$2,500 and \$100,000. In the future, we estimate that USAID could save as much as \$263,000 annually by expanding the routine use of purchase cards above the micropurchase level.

Similar to the discussion of micropurchases in the prior section of this report, by not routinely using purchase cards for transactions above \$2,500, USAID has experienced unnecessary delays in processing procurement actions and has not benefited from potential monetary rebates estimated at \$143,000 per year from increased purchase card usage. (Rebates are discussed more fully in the following section of this audit report.)

In conclusion, failure to expand the use of purchase cards above the micropurchase level has resulted in substantial additional transaction costs because USAID has continued to use other, more costly and time-consuming, procurement methods. We recommend that USAID's Office of Procurement establish and document policies and procedures to expand the use of purchase cards above the micropurchase level in accordance with federal laws and regulations, in order to reduce transaction costs, streamline the procurement process, and benefit from potential rebates.

**Recommendation No. 2: We recommend that the Director of the Office of Procurement revise the Automated Directives System to authorize and encourage the routine use of purchase cards above the micropurchase level and develop a plan to provide the necessary training for purchase cardholders to increase their delegation of authority, when appropriate, to make purchases above the micropurchase level to save an estimated \$263,000 in transaction costs and earn an estimated \$143,000 in additional rebates during the succeeding 12-month period.**

### **USAID Could Significantly Increase the Amount of Rebates Earned from Purchase Card Provider**

USAID did not receive the maximum amount of rebates available through its purchase card program because management did not ensure that (1) purchase cards were used to the maximum extent possible; (2) invoices were paid in a timely manner; or (3) invoices and reports were received electronically. As a result, USAID received only \$4,464 in rebates for procurements made during 1999 and 2000. We estimate that USAID could have earned \$1.2 million during the same period. By making changes in its purchase card program, USAID could potentially earn \$576,000 in rebates annually. (See table on page 15.)

One of the benefits of participating in the purchase card program is the opportunity to earn rebates from purchase card providers. Such rebates result from sales volume and payment performance and may be used to cover general operating expenses of participating agencies. In fiscal year 1999, U.S. Government agencies received over \$55 million in purchase card rebates.

USAID's purchase card provider, Citibank, calculates total purchase card rebates by combining several different types of rebates. The more significant rebate types are described below:

- Net Charge Volume Rebate—based on the dollar value of transactions. The more transactions on the purchase card, the higher the rebates earned.
- Productivity Rebate—based on the number of days prior to the due date that the invoice is paid. The sooner the payment is made, the higher the rebate earned.
- Electronic Commerce Rebate—based on the receipt of statements and reports through electronic transmission and payment of statements through the electronic transfer of funds.

Citibank assigns a specified number of “basis points” for each type of rebate, based on the degree to which USAID meets the respective criteria. Earned basis points are then used to calculate a total or composite rebate amount. Basis points can be negotiated upward if volume increases. USAID has opportunities to generate rebates in a number of different ways.

**Increasing the Net Volume Rebate by Expanding Purchase Card Usage –** Net volume of purchase card usage is a significant factor affecting the total rebate calculation. As discussed in the previous sections of this report, we believe that USAID should increase its use of purchase cards. By increasing purchase card usage to the targets established by the Procurement Executives Council, USAID could earn as much as \$151,000<sup>15</sup> annually in net volume rebates. (See table on page 15.)

**Increasing the Productivity Rebate by Timely Payment of Invoices –** The productivity rebate is principally based on how quickly USAID pays purchase card invoices: the sooner the invoices are paid, the higher the rebate earned. For example, invoices paid within 15 days earn 34.5 basis points,

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<sup>15</sup> Under the current GSA negotiated governmentwide contract, USAID is paid 14 basis points for the net charge volume rebate. Four of those basis points are paid to GSA as an "Industrial Funding Fee" leaving a net 10 basis points as the rebate amount received by USAID.

while those paid between 15 and 30 days earn only 12 basis points.<sup>16</sup> Invoices paid after the due date earn no basis points and do not generate a productivity rebate.

Timely payment of purchase card invoices is also governed by federal laws, regulations, and USAID's own internal policies. For example, the Prompt Pay Act<sup>17</sup> allows agencies to pay single invoices under \$2,500 at any time, but not later than 30 days after the receipt of a proper invoice. USAID policy<sup>18</sup> requires the use of the government credit card, use of accelerated payment methods in compliance with the Debt Collection Improvement Act of 1996, and an annual cost/benefit analysis to determine optimal credit card payment dates. As yet, USAID has not performed a cost/benefit analysis to determine the optimal date for paying purchase card invoices.

From a sample of 90 purchase card invoices received by USAID during 1999 and 2000, we reviewed 81 and found that 74 invoices<sup>19</sup> (91 percent) were paid after the due date. We estimate that, by paying all purchase card invoices within 15 days, USAID could earn a total of \$371,000 annually in productivity rebates. (See table on page 15.)

**Increasing the Electronic Commerce Rebate by Receiving Invoices and Reports Electronically** – USAID could have earned the electronic commerce rebate by arranging with Citibank to receive purchase card invoices and reports electronically. However, USAID never made the necessary arrangements to receive invoices and reports electronically. We estimate that, by making such arrangements, USAID could earn additional electronic commerce rebates totaling \$54,000 annually. (See table on page 15.)

In addition to earning potential rebates, the use of electronic commerce is also required by federal laws and regulations. For example, the Government Paperwork Elimination Act requires agencies, based on cost-benefit analyses, to develop and implement plans for the use of electronic forms and electronic transactions based on cost-benefit analyses. Agency heads are also required to streamline their procurement process through electronic commerce. To assist USAID in managing its purchase card program, the GSA Master Contract with Citibank offers 32 reports to USAID, all available electronically. Currently, USAID receives only eleven reports – none electronically. USAID has not taken advantage of Citibank's electronic reporting capabilities because management never made the necessary arrangements to receive reports

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<sup>16</sup> The basis points given to a government agency in the calculation of the productivity rebate are negotiable. The number of basis points that an agency is able to negotiate is normally directly related to the net sales volume of the program. Thus, increasing purchase card usage would translate into leverage for negotiating higher basis points for the productivity rebate.

<sup>17</sup> 5 CFR 1315.

<sup>18</sup> ADS 630; USAID General Notice, CFO dated January 4, 2001.

<sup>19</sup> Nine of the 90 invoices could not be located.

electronically. Consequently, USAID management has not benefited by receiving electronic reports to help manage its purchase card program.

**Estimated Additional Purchase Card Rebates USAID Could Earn Annually**

Procurement Levels (By Amount)	Net Volume Rebate	Productivity Rebate	Electronic Commerce Rebate	Total Rebate
Less than \$2,500	\$8,000	\$19,000	\$3,000	\$30,000
\$2,500 to \$100,000	\$143,000	\$352,000	\$51,000	\$546,000
Totals	\$151,000	\$371,000	\$54,000	\$576,000

According to the Congressional Budget Justification for 2002,<sup>20</sup> USAID may use any rebates received from the purchase card provider to cover general operating expenses by depositing the rebates into its Working Capital Fund (WCF). The WCF is authorized by Section 635(m) of the Foreign Assistance Act of 1961, as amended, and may receive deposits of rebates generated from the use of federal credit cards. Such deposits would be available to cover USAID’s general operating expenses.

In conclusion, USAID has not received the maximum amount of purchase card rebates available because it did not ensure that purchase cards were used to the maximum extent possible, that invoices were paid in a timely manner, and that invoices and reports were received electronically. We believe that USAID could significantly increase its purchase card rebates by making changes in these areas. The following recommendation does not include \$151,000 in estimated additional net volume rebates because we have already made recommendations to that effect in prior sections of this report. The remaining estimated productivity and electronic commerce rebates total \$425,000.

**Recommendation No. 3: We recommend that the Chief Financial Officer develop a plan to qualify for additional rebates totaling \$425,000 in the succeeding 12-month period by:**

- **determining the optimal payment date for purchase card invoices, based on annual cost/benefit analyses;**
- **developing and documenting procedures requiring that purchase card invoices are paid by that optimal date;**
- **arranging with Citibank to receive purchase card invoices and reports electronically, and**
- **negotiating an increase in basis points with Citibank based on increased transactions.**

<sup>20</sup> See USAID’s Budget Justification to the Congress for Fiscal Year 2002, p. 47.

## **Has USAID designed and implemented effective controls over its purchase card program?**

Agencies using the governmentwide commercial purchase card are required to establish controls so that their respective purchase card programs comply with federal laws and regulations.<sup>21</sup> Controls are to be established at various levels within the purchase card program, based on the responsibilities of cardholders, approving officials, and the Agency Program Coordinator.<sup>22</sup>

USAID had not designed and implemented effective controls over its purchase card program to minimize the risk of inappropriate use of purchase cards. This report identifies a number of significant control weaknesses in USAID's purchase card program regarding training, supplier selection, safeguarding of cards, documentation of transactions, and segregation of duties. Many of these weaknesses were the result of inadequate training and oversight. Unless corrected, these weaknesses significantly increase the risk of intentional or accidental misuse of the purchase cards, especially if the program is expanded as recommended.

Despite identifying control weaknesses in the areas mentioned above, our audit found no indication that USAID employees were intentionally or accidentally misusing purchase cards.<sup>23</sup>

### **USAID Needs to Improve Controls over Selecting Sources of Goods and Services**

Contrary to the FAR and USAID guidance,<sup>24</sup> cardholders did not purchase goods and services from the highest priority sources available and routinely ordered from the same suppliers. Cardholders did not comply with federal source selection regulations due to insufficient training and oversight. As a result, USAID may have paid more than necessary for goods and services obtained with purchase cards and its procurements did not benefit designated special interest suppliers.

The FAR<sup>25</sup> lists sources for supplies and services in order of priority. Purchase cardholders are expected to review list of required sources for supplies and services and to purchase from them in order of priority. The

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<sup>21</sup> FAR 13.301 and TFM 4-4500

<sup>22</sup> TFM 4-4500

<sup>23</sup> Audit did not assess controls in overseas offices.

<sup>24</sup> FAR 8.1 and USAID Smart Pay Training

<sup>25</sup> FAR 8.001.

FAR<sup>26</sup> also requires that, to the extent possible, agencies distribute purchases equitably among qualified suppliers.

Despite these requirements, some purchase cardholders interviewed indicated that they purchased supplies from commercial vendors without considering more preferred sources, as listed below. Further, cardholders repeatedly used the same commercial vendors rather than distributing purchases to various suppliers.

### **FAR Required Sources of Supplies**

#### **FAR 8.001**

Except as otherwise provided by law, agencies shall satisfy requirements for supplies and services from or through the sources and publications listed below in descending order of priority –

*Supplies.*

1. Agency inventories;
2. Excess from other agencies;
3. Federal Prison Industries, Inc.;
4. Products available from the Committee for Purchase From People Who Are Blind or Severely Disabled;
5. Wholesale supply sources;
6. Federal Supply Schedules;
7. Commercial sources (including educational and nonprofit institutions).

Due to a lack of sufficient training and oversight, USAID's purchase cardholders did not follow federal regulations regarding the selection of supply sources. For example, although USAID's purchase card training materials instruct cardholders to review the required sources of supplies and services and to purchase from them according to their preferential ranking, most of the cardholders and approving officials interviewed were not aware

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<sup>26</sup> FAR 13.202.

that there were preferred sources of supply. The cardholders purchased supplies from a limited number of suppliers because most of their purchases were for office supplies and they saw no reason to seek out other qualified suppliers.

As a result goods and services procured with USAID purchase cards were routinely ordered from commercial suppliers whose goods and services may have cost more than those from the U.S. Government's more preferred sources. Also, USAID's purchase card transactions have not benefited designated special interest suppliers.

**Recommendation No. 4: We recommend that the Director of the Office of Procurement develop and implement procedures requiring purchase cardholders use their purchase cards to order goods and services from the U.S. Government's most preferred sources and that they distribute purchases equitably among qualified suppliers.**

#### **USAID Needs to Improve Controls to Safeguard Purchase Cards**

Contrary to guidance in the Treasury Financial Manual (TFM) and USAID's own internal directives, purchase cardholders did not consistently keep their purchase cards in safe and secure locations or ensure that other individuals did not use their cards. This was due, in part, to unclear guidance and inadequate training. As a result, USAID's purchase cards were more vulnerable to being lost or misused.

The TFM requires federal agencies to establish procedures for maintaining the security of purchase cards.<sup>27</sup> The TFM states that agency procedures must address safeguarding purchase cards when not in use, and requires agencies to safeguard purchase cards in the same manner as cash. The Department of the Treasury's *Manual of Procedures and Instructions for Cashiers* indicates that agencies should store cash in safes, but not in file cabinets with key locks or desk drawers. Finally, the TFM instructs cardholders that each purchase card should bear an employee's name and that only that employee should use the card for official purchases.<sup>28</sup> USAID's internal policies require that the individual to whom it was assigned only use the purchase card.<sup>29</sup>

Despite this guidance, USAID's purchase cardholders did not keep their cards in appropriate locations and often allowed other employees to use their card. For

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<sup>27</sup> TFM 4-4500, *Government Purchase Cards*.

<sup>28</sup> TFM 4-4520.

<sup>29</sup> USAID/General Notice, M/OP, May 13, 1999.

example, cardholders often kept purchase cards in their wallets or purses or in their desks or file cabinets. We found in one instance, a cardholder was reconciling a monthly purchase card statement and noticed a charge that looked unfamiliar. After researching its origin, the cardholder found that another employee (also a cardholder) had made the charge because the second employee had already reached the dollar charge limit on his card for the month. Many cardholders indicated that they were not aware that there were any requirements for safeguarding the purchase card. In addition, ADS 331 does not address how purchase cards are to be safeguarded. Without specific requirements, purchase cards are vulnerable to loss or misuse.

**Recommendation No. 5: We recommend that the Director of the Office of Procurement develop, document, and distribute standard procedures, consistent with the Treasury Financial Manual, that require cardholders to adequately safeguard purchase cards, and require that all cardholders and approving officials comply with those procedures.**

### **USAID Needs to Improve Documentation of Purchase Card Approval and Usage**

Both the FAR and USAID's internal directives provide guidance in the area of documentation of purchase card usage. Despite this guidance, cardholders did not consistently use the designated approval form or maintain required documentary support for their purchase card transactions. Without proper documentation, purchases made by cardholders are more vulnerable to errors and misuse.

USAID's internal guidance requires purchase cardholders to obtain an approved credit card transaction form (USAID Form 530-3) prior to each purchase, and to maintain accurate and complete records of purchases, including a log.<sup>30</sup>

USAID's cardholders did not always follow this guidance. For example, four of twenty-one cardholders interviewed did not use USAID Form 530-3 to document their purchases. Three of the twenty-one had no forms to support their original requests for goods or services, or to show that the requests were properly approved and funded.

Cardholders failed to maintain all required documentation or keep a log of purchases. Others developed their own system for maintaining documentation without following a standard procedure. One cardholder ordered supplies,

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<sup>30</sup> USAID/General Notice, M/OP, May 13, 1999.

which he had shipped directly to other end users without obtaining a verification of receipt.

Cardholders did not routinely follow USAID guidance due to lack of clarity in the ADS and insufficient training. Without adequate approval and support documentation, management has little assurance that purchases charged to purchase cards were necessary for official use, properly approved and funded, or that the quantity, condition, and receipt of goods were verified. Consequently, USAID's purchase card program is more susceptible to undetected errors and misuse.

**Recommendation No. 6: We recommend that the Director of the Office of Procurement revise USAID guidance indicate the type of approval and support documentation required to be maintained by cardholders, and develop procedures requiring that such documentation is properly maintained.**

### **USAID Needs to Improve Controls over the Segregation of Duties**

Key responsibilities should be divided among different individuals, thereby reducing the risk of error or fraud. USAID did not properly segregate the duties associated with credit card transactions. This occurred because of lack of adequate guidance, training, and supervision of cardholders and approving officials. To reduce the risk of error or fraud the General Accounting Office (GAO) requires key duties and responsibilities to be divided among different people.<sup>31</sup> Responsibilities for authorizing, processing, recording, and reviewing transactions, and handling any related assets should be distributed. No one individual should control all key aspects of a transaction or event.

Cardholders were allowed to perform several, if not all, of the key functions of a purchase card transaction. For example, cardholders were often responsible for two or more of the following duties:

- placing orders;
- committing and obligating funds;
- receiving and counting merchandise;
- reconciling invoices for payment; and

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<sup>31</sup> GAO-01-585T, issued April 3, 2001.

- maintaining support documentation.

This occurred because management did not prepare adequate guidance or procedures to ensure that duties were properly segregated. Although ADS 331.3 specifically assigned approving officials the responsibility for overseeing cardholders, many approving officials were not aware of the functions performed by their cardholders. Most approving officials were unaware of the procedures relating to purchase card usage and relied heavily on the cardholders to know and apply them properly.

Inadequate segregation of duties increases the vulnerability of USAID's purchase card program to potential fraud, waste, or abuse.

**Recommendation No. 7: We recommend that the Director of the Office of Procurement revise USAID guidance to indicate which purchase card transaction functions should be segregated and develop procedures that require proper segregation of duties.**

### **USAID Needs to Reinforce Training of Cardholders and Approving Officials**

Many of the control weaknesses and findings discussed in this report were due, in part, to inadequate training. The training provided to cardholders and approving officials was too limited in scope and too infrequent to ensure that those individuals had and retained the knowledge necessary to properly implement the purchase card program. Consequently, we believe that USAID should review its purchase card-training program and develop a plan to improve the subject matter, as well as the frequency, of the training.

According to GSA, training is the key to understanding and reinforcing controls over the purchase card program. The TFM states that management of the purchase card program includes ensuring that training is provided. USAID's internal guidance requires that only individuals who have received specified training be issued a purchase card. This training consists of 2-3 hours of instruction given on a one-time basis.

Based on the lack of understanding of controls over the purchase card program demonstrated by the cardholders and approving officials interviewed, it appears that this training has been insufficient. For example, controls regarding the proper safeguarding of purchase cards and the prioritized selection of supplier sources were not adequately covered in the purchase card-training course.

A possible source of training material is a computerized course developed by GSA in cooperation with several other federal agencies. This course uses an interactive format on the Internet that allows the cardholder to call upon the "instructor" at any time for assistance. The course includes text, video, interactive media, and reference documents which provide guidance to cardholders; applicable rules and regulations to educate cardholders on allowable and unallowable purchases; and catalogs for required sources. Such a course would be relatively easy to distribute and could be taken at cardholders' and approving officials' convenience.

Without adequate training, updated on a frequent basis, purchase cardholders and approving officials will continue to be unaware of many of the critical controls and procedures over USAID's purchase card program. Consequently, the program will remain more vulnerable to intentional or accidental misuse of purchase cards.

**Recommendation No. 8: We recommend that the Director of the Office of Procurement review its purchase card training program and develop a plan to increase the subject matter covered by the training, as well as determine how often cardholders and approving officials should be required to receive training updates.**

### **USAID Needs to Improve Oversight of Its Purchase Card Program**

Many of the control weaknesses described in this report were due, in part, to inadequate oversight of the purchase card program. The Agency Program Coordinator (APC) did not perform many of the duties and responsibilities needed to oversee the program due to the lack of authority, resources, and management support. Consequently, USAID's purchase card program remains vulnerable to intentional or accidental misuse of purchase cards.

The TFM<sup>32</sup> requires each agency to designate an office (usually the procurement office) to manage its purchase card program. Specific duties of that office are to (1) provide training, (2) maintain a current list of cardholders and approving officials, and (3) conduct an annual review of the program. USAID has designated its Office of Procurement to manage its purchase card program. The Office of Procurement has delegated all program responsibilities to one employee, the APC.

According to ADS 331.3, USAID's APC is responsible for implementing and administering the purchase card program. Also, the APC is the liaison with

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<sup>32</sup> TFM-4-4525.

GSA, Citibank (the purchase card provider), the cardholders, approving officials, and USAID management on matters relating to purchase cards. For example, the APC is responsible for monitoring account activity, resolving technical and operational problems, activating core products and services, evaluating contractor performance, and ensuring that cardholders use their cards correctly.

USAID has relied on the APC to fulfill these responsibilities with no assigned support staff. As USAID's primary person for all matters related to purchase cards, this individual is essentially responsible for administering the entire purchase card program. Because upper-level managers have had little or no involvement with the purchase card program, and the APC was solely responsible for such a variety of tasks, many of the controls reviewed during the audit have not been effectively implemented or enforced.

One possible cause for the lack of management oversight was the fact that neither the Senior Procurement Executive nor the Director of Procurement had been given overall responsibility for the purchase card program. As a result, neither gave the APC sufficient managerial support to obtain the resources necessary to properly administer the program. Without adequate oversight, USAID's purchase card program remains vulnerable to potential fraud, waste, and abuse. Lack of oversight is of particular concern if the volume and dollar-value of purchase card transactions significantly increase in the future, as recommended.

**Recommendation No. 9: We recommend that the Director of the Office of Procurement review the staffing and management structure of its purchase card program and determine the actions necessary to provide the Agency Program Coordinator with the resources and authority to properly administer the program.**

**Recommendation No. 10: We recommend that the Director of the Office of Procurement develop a plan and procedures to monitor and manage its purchase card program as required by the Treasury Financial Manual.**

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## **Management Comments and Our Evaluation**

In its comments to the draft audit report (included in Appendix II), USAID management indicated that it generally concurred with all of our recommendations, but not our estimated savings amounts. Management expressed concerns in achieving the estimated \$1.3 million in annual efficiencies and indicated that a system change would be necessary prior to expanding the

purchase card program as recommended. Following is a summary of management's comments and our evaluation for all ten recommendations.

#### Recommendation No. 1

Management generally concurred with the recommendation to encourage and monitor the use of purchase cards for all eligible micropurchases and indicated that it expected to close the recommendation by March 10, 2003. However, management did not believe that it was the Office of Procurement's role to enforce the usage of purchase cards under the purchase card program. Although management anticipated that dollar savings would result from implementation of the recommendation, it did not concur with our estimate due to the difficulty of projecting savings based on the successful usage of the purchase card program by cardholders. For this reason, management did not propose an alternative savings amount.

Automated Directives System (ADS) 302.3 states that the Office of Procurement is responsible for developing, issuing and maintaining USAID's acquisition regulations. We believe this includes the responsibility to enforce proper use of purchase cards. In response to management's comments, we moved our rebate estimate pertaining to increased usage of purchase cards for micropurchases from Recommendation No. 3 to Recommendation No. 1. For recommendations dealing with efficiencies, a management decision cannot be reached until management and the OIG agree on the amount of estimated savings. Consequently, we do not consider Recommendation No. 1 to have received a management decision. Please provide within 30 days any additional information related to actions planned or taken to implement this recommendation, as well as any alternative savings amounts.

#### Recommendation No. 2

Management agreed with the goal of the recommendation to increase purchase card usage above the micropurchase level, but did not believe it could accomplish this without first correcting a system problem deemed to be a disincentive to using purchase cards. Management indicated that it expected this problem to be resolved, and the recommendation closed, by March 10, 2003. However, management did not indicate how it was going to increase purchase card usage above the micropurchase level. Further, management did not concur with our estimated savings amount or offer an alternative amount.

The intent of our recommendation was to have USAID increase the use of purchase cards above the micropurchase level. We recommended that the Office of Procurement accomplish this by revising the Automated Directives System and by increasing the warrant authority, subject to appropriate training, of current cardholders. Management's comments did not address this

aspect of our recommendation, or present an alternative means to accomplish the same objective. Further, for recommendations dealing with efficiencies, a management decision cannot be reached until management and the OIG agree on the amount of estimated savings. For these reasons, we do not consider Recommendation No. 2 to have received a management decision. Please provide within 30 days any additional information related to actions planned or taken to implement this recommendation, as well as any alternative savings amounts. In response to management's comments, we moved our rebate estimate pertaining to increased usage of purchase cards above the micropurchase level from Recommendation No. 3 to Recommendation No. 2.

### Recommendation No. 3

Management concurred with all four procedural components of this recommendation to increase purchase card rebates and indicated that they had either already been accomplished or would be accomplished by September 30, 2002. However, management did not concur with our estimated dollar savings. Although management acknowledged the potential of increased rebates due to the implementation of this recommendation, it offered a counter efficiency amount of \$0.00 due to the number of variables that impact the calculation of rebates.

Because we do not concur with management's estimated amount of potential purchase card rebates, we do not consider this recommendation to have received a management decision. However, in response to management's comments, we moved our estimates for potential net volume rebates pertaining to the increased usage of purchase cards below and above the micropurchase level from Recommendation No. 3 to Recommendation Nos. 1 and 2, respectively. The remaining estimates under this recommendation are only for the productivity and electronic commerce rebates. Assuming that USAID successfully increases its purchase card usage and implements the procedures in this recommendation, we believe that the estimated potential rebates would be achievable. With the removal of the net volume estimates, we request that management reconsider its estimates of potential productivity and electronic commerce rebates and let us know within 30 days whether it concurs with our estimated savings amounts.

### Recommendations Nos. 4 through 10

Management concurred with all seven recommendations and indicated that applicable policies and procedures will be developed to strengthen the internal controls addressed in the recommendations. Management provided an addendum to its initial audit response indicating a final action date of March 10, 2003 for each of the seven recommendations. Consequently, we consider Recommendation Nos. 4 through 10 to have received a management decision.

## Scope and Methodology



### Scope

We audited the USAID purchase card program in accordance with generally accepted government auditing standards. We conducted the audit fieldwork in USAID/Washington from January to August 2001. The audit focused on procurement transactions made by USAID/W during the period December 1998 through December 2000 and reported in the Aid Worldwide Accounting & Control System (AWACS) and to the Federal Procurement Data System (FPDS) for fiscal years 1999 and 2000. We also evaluated USAID's internal controls over their purchase card program.

In particular, the AWACS universe included 18,021 micropurchase transactions valued at \$15,081,236 for the period reviewed. USAID also reported a total of 6,196 transactions valued at \$23 million under \$25,000 and 6,648 transactions valued at \$373 million under \$100,000 for fiscal years 1999 and 2000.

In addition, to evaluate the adequacy of the USAID's internal policies and procedures for the purchase card program, we interviewed key USAID personnel to determine if controls were adequate to prevent fraud or misuse of the purchase card. We conducted interviews with cardholders and approving officials to evaluate the type and frequency of the training received; the delegation of authority thresholds; procedures used in purchasing, receiving, and reconciling purchases and monthly statements. We assessed the monitoring of the purchase card program by interviewing the Agency Program Coordinator (APC) and reviewing the monthly reports provided to the APC by Citibank.

We also reviewed "Best Practices" documentation from several other federal agencies to determine how other agencies used the purchase card program to streamline procurement actions.

### Methodology

In order to achieve the objectives of this audit, we met with officials from USAID's Office of Procurement, Office of Financial Management, and the Office of Information Technology. In addition, we met with the Office of Management and Budget, the General Services Administration, and the Citibank account representative. We also interviewed numerous USAID purchase cardholders, USAID purchase card approving officials, and the USAID purchase card coordinator. The audit did not cover purchase cardholders or purchase card transactions outside USAID/Washington.

In addition, we also performed the following steps:

- reviewed current federal laws, regulations, policies, and directives to determine current requirements for the Governmentwide Commercial Purchase Card;
- reviewed copies of USAID General Notices and Automated Directives System (ADS) to understand USAID's policies and procedures regarding its governmentwide commercial purchase card program;
- reviewed a copy of GSA's master contract with approved commercial purchase card providers;
- reviewed copies of monthly Citibank reports on USAID purchase card transactions to determine whether employees made any inappropriate or questionable charges to the purchase card account;
- reviewed electronic databases from AWACS and Citibank for the period December 1998 through December 2000 to determine number and value of transactions;
- randomly tested sample purchases, both purchase card transactions and non-purchase card transactions, from the AWACS database to determine:
  - whether purchase card transactions were appropriate and properly approved, and whether timely payment was made;
  - whether non-purchase card transactions were eligible for purchase card usage;
  - the percentage of transactions placed on the purchase card.

## Management Comments



U. S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

MAR 11, 2002

### MEMORANDUM

**TO:** Dianne L. Rawl, Director, IG/A/PA

**FROM:** Mark S. Ward, Director, Office of Procurement /s/  
Elmer S. Owens, Acting Chief Financial Officer /s/

**SUBJECT:** Audit of USAID's Governmentwide Commercial Purchase Card Program (Report No. 9-000-02-00X-P)

Thank you for the opportunity to comment on the draft of the subject audit report. We agree with the basic premise of the audit that the Agency should make much better use of the purchase cards to enable us to earn substantially more in rebates and to help reduce our procurement workload. It is also clear that we need to improve our policies and procedures in order to encourage more use and ensure that the cards are used properly.

It is important to note that the Office of Procurement began implementing a purchase card pilot program in the fall of 2001 which includes the following five basic components: 1) issuance of an additional two hundred purchase cards (to qualified FSNs in our Missions) for micro-purchase transactions; 2) expansion of purchase card use for simplified acquisition transactions up to \$100,000; 3) issuance of the purchase card as a payment mechanism to overseas Controllers for payment of all U.S. direct hire household effect expenses; 4) implementation of the C2IT program which allows payment of invoices to contractors within forty-eight hours from receipt of invoice; and 5) implementation of the ARIBA Buyer system which includes purchase card purchases.

The audit does not address the basic systems problem that has limited the use of purchase cards for procurements over the micro-purchase threshold (\$2,500). Currently purchase cardholders have to make entries into two automated systems, the A&A small purchase module and Phoenix, in order to complete acquisition actions over the micro-purchase threshold. Because of this system problem, those who had authority to make purchase card purchases over \$2,500 rarely did so because it required double entry of the same data. Instead, they generally used purchase orders – which only required one entry -- for the same transactions. The Office of Procurement did not attempt to adjust the A&A system to eliminate the need for double entry for purchase card transactions because we planned to replace the entire A&A system this year. Budget reallocations

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since September 11 and the new Agency-wide business transformation study have delayed that effort.

Fortunately, thanks to M/IRM, component five of the pilot program -- using ARIBA Buyer instead of the A&A small purchase module -- should allow the Agency to make purchase card purchases between \$2,500 and \$100,000 with a single entry. The pilot will begin in four organizations: the Division in IRM that handles the GSA procurements, the branch in M/OP that handles small purchases, the Overseas Management Services branch within M/AS, and the Office of Security. Depending on the results of the pilot, the Agency may decide to expand its use to all small purchases and obviate the need to fix the A&A small purchase module. An assessment of the ARIBA Buyer pilot program will be completed by June 30, 2002.

The end of the Summary of Results on page 3, states that the report includes three monetary recommendations. This sounds as though we are required to collect an amount of money as part of the recommendation. Since ADS 592, Audit Management Program, does not mention monetary recommendations, we believe these recommendations should be classified as management efficiencies instead.

*Recommendation 1: We recommend that the Office of Procurement develop and document procedures to encourage, monitor, and enforce the use of purchase cards for all eligible micro-purchases and save an estimated \$452,000 in the succeeding 12-month period.*

Response: The Office of Procurement generally concurs with this recommendation. We will update the existing purchase card procedures to encourage and better monitor the use of purchase cards for all micro-purchases. As noted above, the Office of Procurement will shortly issue policy guidance authorizing Mission's to issue purchase cards for micro-purchases to certain FSNs.

We do not believe it is an appropriate role for the Office of Procurement, nor are we in a position to, enforce the use of the purchase card program, except to the extent that the Office of Procurement refuses to process any more micro-purchases. Although we anticipate dollar savings, it is difficult to project the annual estimated savings as this is dependent upon the successful usage of the purchase card program by cardholders.

*Recommendation 2: We recommend that the Office of Procurement revise the Automated Directives System to authorize and encourage the routine use of purchase cards above the micro-purchase level and develop a plan to provide the necessary training for purchase cardholders to increase their delegation of authority, when appropriate, to make purchases above the micro-purchase level and save an estimated \$263,000 in the procurement transaction costs during the succeeding 12-month period.*

Response: While we agree with the goal of the recommendation, we cannot accomplish this until we correct the system problem which requires double entry in Washington or replace the A&A small purchase module with the Ariba Buyer product for all Agency

small purchases. In the field, we can push for increased use of purchase cards and have, in fact, already issued eight new cards to Mission Controllers to cover transportation of household effects.

*Recommendation 3: We recommend that USAID's Chief Financial Officer develop a plan to qualify for additional rebates totaling \$576,000 in the succeeding 12-month period by:*

- *determining the optimal payment date for purchase card invoices, based on annual cost/benefit analyses;*
- *developing and documenting procedures to help ensure that purchase card invoices are paid by that optimal date;*
- *arranging with Citibank to receive purchase card invoices and reports electronically;*
- *negotiating an increase in basis points with Citibank based on increased transactions.*

Response: The Office of the Chief Financial Officer concurs with the recommendations outlined in the draft report and will implement measures to ensure compliance. However, we do not concur with the estimated dollar volume of rebates that USAID would qualify for if all of the **recommendations were** fully implemented. The specific recommendations are addressed below.

- *determining the optimal payment date for purchase card invoices, based on annual cost/benefit analyses;*

The Office of the Chief Financial Officer concurs with this recommendation and will implement measures to ensure compliance. Section 1315.8 of the Prompt Payment Act, codified at 5 CFR Part 1315, addresses how agencies should determine payment dates for commercial purchase card invoices. This section requires agencies to perform a cost/benefit analysis to the Federal Government as a whole and make payments based on the results of this analysis. During the period of time reviewed in this audit, FM/CMP did not perform this required analysis. FM/CMP has performed this analysis for the current year. Findings based on this analysis indicate that USAID should be paying the purchase card invoice as close to the invoice date as possible. This should be done because the daily current value of funds rate is calculated to the equivalent of 1.38 basis points  $((.05/360)*100)$  while the daily basis points offered by Citibank for early payment is 1.5. FM/CMP will implement a process that requires the cost/benefit analysis to be performed once annually. Because the key indicator in this cost/benefit analysis is the interest on funds held by the Treasury, FM/CMP will perform this analysis annually when the Treasury Current Value of Funds Rate is published (this is published annually by October 31). FM/CMP will also factor in any efficiencies gained from enhanced payment processes in performing this analysis when implemented.

- *developing and documenting procedures to help ensure that purchase card invoices are paid by that optimal date;*

The Office of the Chief Financial Officer concurs with this recommendation and will implement measures to ensure compliance. As stated above FM/CMP had not performed the required cost/benefit analysis in the past and therefore, has been processing purchase card payments in compliance with the 30-day timeframe outlined in the Prompt Payment Act. There were instances where the delay in the receipt of approval forms pushed the payment timeframe past the 30-day window. To ensure that payments are made in accordance with the findings of the cost/benefit analysis performed, FM/CMP will develop and document procedures to meet this optimal payment date. FM/CMP has already performed the required cost/benefit analysis as outlined above. FM/CMP will develop and implement payment procedures consistent with Treasury guidelines in this area to ensure maximizing the benefit to the government. Procedures will be developed and implemented in USAID/W by June 30, 2002.

- *arranging with Citibank to receive purchase card invoices and reports electronically;*

The Office of the Chief Financial Officer concurs with this recommendation and will implement procedures to ensure compliance. For USAID to be eligible for this rebate, all components of USAID receiving Citibank invoices are required to be billed electronically and process payment electronically within 30 days from receiving the invoice. During the past two billing cycles beginning December 2001 FM/CMP has received the monthly Citibank invoice in electronic form via CD. During FY 2002, all USAID billing offices not already receiving reports electronically will implement the transfer of invoice information via Citibank's Internet based system CitiDirect. In addition, all payments processed to Citibank are processed via electronic fund transfer. As noted payments to Citibank have not been consistently made within the 30-day timeframe required to meet the rebate criteria. When the revised payment procedures are implemented along with the electronic receipt of the invoice via CitiDirect (or other electronic means) USAID will qualify for the electronic commerce rebate.

- *negotiating an increase in basis points with Citibank based on increased transactions.*

The Office of the Chief Financial Officer concurs with this recommendation and will implement procedures to assist in compliance. The basis points given to a government agency in the calculation of the productivity rebate are negotiable when preparing a task order from the GSA master contract. The number of basis points that an agency is able to negotiate is normally directly related to the net sales volume of the program. Increasing the use of the card would translate into leverage for negotiating higher basis points for the productivity rebate.

USAID is currently a "tag" agency on a task order between Citibank and the State Department. The task order negotiated from the master GSA contract was negotiated by contracting officers in the State Department. In order to assist in the compliance of this recommendation FM/CMP will monitor overall card usage on a quarterly basis. When an appreciable increase in the card is recognized, FM/CMP will notify M/OP and assist to assure that this feedback is provided to those responsible for the negotiation of basis

points in the purchase card contract. It should be noted that the 14 basis points paid under the net volume rebate are not negotiable under the current Citibank master contract. This is a fixed number that Citibank offers all government clients.

In addition, it should be noted that the \$576,000 refund increase noted in this report could not be achieved by the implementation of these recommended financial management practices alone. The audit report identifies potential increases in rebates as follows:

Net Volume Rebate - \$151,000 annually  
Productivity Rebate - \$372,000 annually  
Electronic Commerce Rebate - \$54,000 annually

Total - \$577,000 annually (note: the audit report identifies an annual total of \$576,000. We are not able to account for the \$1,000 difference in the individual rebate totals and the calculated total in the audit report.)

The net volume rebate is calculated solely on the net usage of the card. Under the current GSA negotiated government-wide contract, USAID is paid 14 basis points (or .0014) for the net charge volume on the purchase card. Therefore, fluctuation in the rebate amount for net volume rebate will not be impacted by the implementation of any of the financial management recommendations made in "Recommendation No. 3". We recognize and concur that the implementation of the other recommendations in the report that will bring about changes in cardholder behavior and the procurement practices can impact this rebate amount. Further, it should be noted that four (4) basis points of this is paid to GSA as the "Industrial Funding Fee" leaving a net 10 basis points as the rebate amount received by USAID. Therefore, to achieve the increase outlined in this audit report (net of the GSA Industrial Funding Fee), USAID would have to increase net charge volume on the purchase card by \$151,000,000. This total exceeds USAID's micropurchase transaction dollar volume for 1999 and 2000 combined as outlined in this audit report. Net charge volume also factors into the calculation of the productivity rebate. Therefore, the productivity rebate could not reach the level specified in this report without a dramatic increase in the use of the card by USAID. In addition to the net charge volume, the payment turnaround time factors into the calculation of this rebate. Because the optimal payment date is derived when factoring in the benefit to the government as a whole, there could be instances when payment as close to the 30-day Prompt Payment Act requirement is most beneficial to the government. In these instances the productivity rebate would be significantly reduced or eliminated.

Further, the potential increase in the electronic commerce rebate outlined in this audit report would be difficult if not impossible for USAID to achieve under the current purchase card contract. Citibank, USAID's current purchase card contractor sets the rebate structure in accordance to terms in the General Service Administration's master contract and the tailored order that USAID is operating under through the GSA contract. The current GSA master contract calls for purchase card service providers to offer a total rebate for electronic commerce in the amount of \$25,000 per month. This rebate is split between all qualifying federal agencies that have Citibank as their purchase card

contractor. The proration of the rebate is made to qualifying agencies based on the net charge volume of the agency. Based on USAID's relative size and card usage in relation to other agencies that qualify for this rebate, it is unlikely that USAID could account for the 18% of total Citibank net charge volume required to secure \$54,000 in electronic commerce rebates.

To summarize, the CFO recognizes the benefits of implementing recommendation #3 of this audit report. The CFO will develop processes to ensure compliance with this recommendation including a process to calculate, monitor and pay invoices by the optimal payment date, an electronic invoicing/payment process and monitoring card usage to assist in the negotiation of a more favorable rebate structure.

*Recommendation 4: We recommend that the Office of Procurement develop and implement procedures requiring purchase cardholders to use their purchase cards to order goods and services from the U.S. Government's most preferred sources and that they distribute purchases equitably among qualified suppliers.*

Response: The Office of Procurement concurs and will ask the Office of General Counsel whether or not the preferred sources requirement in the Federal Acquisition Regulations applies to the Agency's program funding. We will develop procedures accordingly.

*Recommendation 5: We recommend that the Office of Procurement develop, document, and distribute standard procedures, consistent with the Treasury Financial Manual, that require cardholders to adequately safeguard purchase cards, and require that all cardholders and approving officials comply with those procedures.*

Response: The Office of Procurement concurs with this recommendation and will implement procedures to ensure compliance.

*Recommendation 6: We recommend that the Office of Procurement revise Agency guidance to indicate the type of approval and support documentation required to be maintained by cardholders, and develop procedures requiring that such documentation is properly maintained.*

Response: The Office of Procurement concurs with this recommendation and will implement procedures to ensure compliance. The ARIBA Buyer pilot activity should help us to determine the requirements to be established.

*Recommendation 7: We recommend that the Office of Procurement revise Agency guidance to indicate which purchase card transaction functions should be segregated and develop procedures that require proper segregation of duties.*

Response: The Office of Procurement concurs with this recommendation and will develop policies that require appropriate segregation of duties.

*Recommendation 8: We recommend that the Office of Procurement review its purchase card training program and develop a plan to increase the subject matter covered by the training, as well as determine how often cardholders and approving officials should be required to receive training updates.*

Response: The Office of Procurement concurs with this recommendation.

*Recommendation 9: We recommend that the Office of Procurement review the staffing and management structure of its purchase card program and determine the actions necessary to provide the Agency Program Coordinator with the resources and authority to properly administer the program.*

Response: The Office of Procurement concurs with this recommendation and is reviewing the needs of the program in terms of staff resources and grade levels.

*Recommendation 10: We recommend that the Office of Procurement develop a plan and procedures to monitor and manage its purchase card program as required by the Treasury Financial Manual.*

Response: The Office of Procurement concurs with this recommendation and will develop and implement appropriate procedures.

Drafted by:KTriplett:M/OP/E:KO'Hara:M/OP/OD:DPace:M/FM/CMP:3/8/02

## Addendum 1 to Appendix II

-----Original Message-----

**From:** Ward, Mark  
**Sent:** Monday, March 11, 2002 10:49 AM  
**To:** Rawl, Dianne L.  
**Cc:** OHara, Kathleen; Turner, Connie  
**Subject:** Addendum to M/OP audit response

Diana -- We forgot to incorporate dates into our responses to recommendations 1, 2 and 4-10 for purposes of making management decisions on those recommendations. Please make the following part of our response.

For recommendations 1 and 4-10: M/OP expects to close the recommendation by March 10, 2003.

For recommendation 2: Whether we decide to expand the Ariba Buyer pilot to all small purchases or adjust NMS A&A to eliminate the need for double entry, M/OP expects to close the recommendation by March 10, 2003.

Thanks for your patience. Mark Ward

## Addendum 2 to Appendix II

-----Original Message-----

**From:** Ostermeyer, David  
**Sent:** Monday, March 11, 2002 1:34 PM  
**To:** Rawl, Dianne L.  
**Cc:** Travis, Diane; Turner, Connie  
**Subject:** RE: Addendum to comments on Draft IG Audit Report on Credit Card Usage

I concur with the information provided below. Connie Turner is our point of contact if you have further questions.

Ostermeyer

-----Original Message-----

**From:** Turner, Connie  
**Sent:** Monday, March 11, 2002 12:36 PM  
**To:** Ostermeyer, David  
**Cc:** Travis, Diane  
**Subject:** Addendum to comments on Draft IG Audit Report on Credit Card Usage

David: Please review the following additional information regarding recommendation 3 as submitted by Don Pace. If you are in agreement, please forward it on to Diane Rawl with a copy to me for the file. Thanks.

CFO does not agree with the dollar volume of the rebates outlined in the draft report and will have to offer a counter efficiency amount of \$0.00 due to the number of variables that impact the calculation of the rebates. As stated in this response, the implementation of the financial management recommendation proposed would not be the only factor in meeting the rebate amounts identified. Modifications to card usage and cardholder behavior would have to be implemented simultaneously with the FM recommendation to increase the amount of rebates received. Please note that the CFO is aware of the efficiencies that will be gained and the potential for increased rebates with the implementation of this recommendation and this is the basis for our concurrence. However, because the implementation of this recommendation is not the lone factor in the determination of the rebates, CFO cannot offer a counter total.

Implementation for the four (4) sub-recommendations:

1. Immediate - this has been done
2. June 30, 2002
- 3 & 4. September 30, 2002

Let me know if you have further questions/concerns. Thanks.

**Connie A. Turner**  
**M/CFO**  
**RRB 2.10-020**  
**Tech Hub 10-115**  
**202-712-5693 or**  
**703-465-7152**  
**[cturner@usaid.gov](mailto:cturner@usaid.gov)**  
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